Merseyside Energy Recovery Holdings Limited

Annual report and financial statements

Registered number 07983197

For the year ended 31 March 2023

Group Information

Directors	A Padfield B Knox M Kanai C Thorn M Thompson D Thompson M Patrick
Company secretary	SUEZ Recycling and Recovery UK Ltd
Company number	07983197 - incorporated in England & Wales
Registered office	SUEZ House Grenfell Road Maidenhead Berkshire SL6 1ES
Auditor	Mazars LLP 90 Victoria Street Bristol BS1 6DP

Contents

Strategic report

The directors present their strategic report, directors' report and financial statements for the year ended 31 March 2023.

Principal activities

Merseyside Energy Recovery Holdings Limited's (the Company) subsidiary (the Group) has signed a PPP contract with the Merseyside Recycling and Waste Authority (MRWA) to cover the provision of a waste treatment infrastructure. In this contract the Authority acts for a consortium of seven Merseyside Councils.

The principal activities of the Group are to construct and operate the waste treatment infrastructure on behalf of the Authority. This infrastructure will comprise of a new Energy from Waste (EfW) plant in Wilton, Tees Valley, together with a rail transfer station in Knowsley, Merseyside.

The principle activity of the Company is that of a holding company.

Business review

The Group's key financial performance indicators were as follows:

	2023	*2022*	*Variance*
	£000	*£000*	
Turnover	**49,365**	*51,658*	*-4%*
Operating profit	**18,173**	*14,233*	*28%*
Profit after tax	**8,438**	*5,925*	*42%*
Shareholders' deficit	**(26,540)**	*(57,945)*	

The Group benefitted from increased electricity prices during the year, which had a positive impact on operating profit. When compared to 2022 the impact of the higher power prices was reduced due to Wilton EfW having an extended shutdown.

Following the extended shutdown availability at the Wilton EfW plant in the last quarter of 2023 improved.

The results for the Group for the year are set out in the Consolidated Income Statement and Statement of Comprehensive Income on page 13 and the Group's position at the end of the financial year is stated on the Consolidated Balance Sheet on page 14.

Key performance indicators

Key performance indicators have been developed and agreed with all parties to monitor the operational efficiency of the EfW plant and the RTLS feeding it. The Board of Directors meet each quarter to review health and safety, plant availability, volume of waste processed and volume of electricity/steam generated as well as financial performance and other matters as appropriate.

Business Development

The O&M Contractor has identified key risk areas for operations and is taking steps to improve the resilience of the supply chain. An initiative to upgrade waste compactors at Knowsley RTLS, thereby improving waste volumes in each rail container, was awarded the "Innovation of the Year" prize at the 2022 Awards for Excellence in Recycling and Waste Management.

Strategic report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are broadly grouped as operational risks, competitive risks, legislative risks, health & safety risks and financial risks.

Operational risks
The Group's primary operations involve a major public sector contract of 30 years, where default on the contract may result in substantial compensation payments to the client. The long-term contract also exposes the Group to the risk that the contract's revenue profile over the life of the contract may be insufficient to compensate the Group for unforeseen cost increases and hence losses may result. The Group has put in place rigorous tender approval procedures to ensure all material risks are properly considered. The Group's management and review procedures are aimed at ensuring any problems are identified at an early stage and steps are taken to mitigate any losses arising.

Competitive risks
Most of the Group's revenue is derived from long term fixed price contracts and as such is not vulnerable to competitor activity. A significant part of the Group's revenue will come from third party waste disposal and the sale of recycled materials. These are subject to normal market pressures.

Legislative risks
The waste management business is subject to strict legislation and regulation. These standards are subject to continuous revision. Compliance with new standards can impose additional costs on the Group and failure to comply could result in heavy penalties.

The Group has entered into a long-term operating subcontract with SUEZ Recycling and Recovery UK Ltd, an experienced waste operator, to manage day to day operation of the Group's facilities. A non-compliance with legislation caused by the negligence of the operator would result in any associated penalties being recharged to the subcontractor. The Group has the right to terminate the operator subcontract in the event of any material persistent non-compliance with legislation on the part of the operator.

Health & safety risks
Whilst the Group has no direct employees, it acknowledges that subcontractors' employees working within the waste management industry face significant potential hazards in their everyday work. In addition, sites managed by the Group are open to the public and require constant monitoring to ensure that members of the public are not also exposed to significant risks.

The Group encourages subcontractors to meet the highest standards so that the risk to both employees and others visiting Group sites is minimised. Subcontractors are required to report accidents and near misses on a regular basis and these reports are reviewed at Board meetings. Subcontractors are encouraged to take pre-emptive action where risks to employees or members of the public have been identified. The Group has retained a third party company with expertise in Health & Safety to carry out an annual audit of the O&M Contractor's operations to ensure proper standards are in place.

Strategic report (continued)
Principal risks and uncertainties (continued)

Financial instrument risks
The Group was set up as part of a Project Finance structure to manage the provision of waste services for Merseyside Recycling and Waste Authority (MRWA) over a 30 year period. Financial instruments were used to minimise the long term financial risks associated with such a major project.

Interest rate risk – The Group's principal financial instruments comprise a term loan and an equity bridge loan, split across three lenders. These loans are exposed to interest rate risk. The Group has entered into fixed rate swap agreements to avoid volatility in interest charges on its floating rate loans. The Group has applied hedge accounting requirements to account for the derivative swap agreements and the associated loans; their relationships being accounted for as cash flow hedges – see note 22 to the accounts.

The Group's exposure to credit risk and liquidity risk and the procedures in place to manage these risks are explained in note 22 to the accounts.

The Group does not undertake financial instrument transactions which are speculative or unrelated to the Group's trading activities.

This report was approved by the board and signed on its behalf on its behalf on 9 August 2023 by

C Thorn – Director

Directors' report

The directors present their directors' report and financial statements for year ended 31 March 2023.

Result and Dividends

The profit for the year, after taxation, amounted to £8,438,000 *(2022 –£5,925,000)*.

The directors do not recommend the payment of a dividend for the year ended 31 March 2023 *(2022 - £nil)*.

Directors

The directors who held office during the year were as follows:

A Padfield
B Knox
M Thompson
M Kanai
D Thompson
C Mcclay (resigned 21 September 2022)
C Thorn
M Patrick (appointed 21 September 2022)

No director who held office on 31 March 2023 had an interest in the Group's shares either during the financial year or at 31 March 2023.

Directors' indemnity

The Group has granted indemnity to one or more of its directors against liabilities in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Going Concern

The directors have reviewed the Group's financial position at 31 March 2023 and believe that the Group and Company has adequate financial resources to meet its obligations for the foreseeable future. Long term loans are in place to finance the construction of the Energy from Waste facility and cash flow is sufficient to meet the Group's operational cash commitments.

Streamlined Energy and Carbon Reporting

The Company and the Group are both classified as a large unquoted company under the definitions set in Section 465 and 466, Chapter 15, of the Companies Act 2006, and therefore is required to comply with government legislation implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") on Streamlined Energy and Carbon Reporting (SECR). However, under paragraph 20D (7) of the 2018 Regulations, the Company is exempt from the disclosure requirements by virtue of the Group's energy consumption in the UK being less than 40 MWh during the period. The management of the day to day operations of the Group's facilities are subcontracted and therefore energy consumption related to the operation of the facilities are by the subcontracting operator.

Directors' report *(continued)*

Statement in respect of Section 172(1) of the Companies Act 2006

The board of directors of the Company and the Group, both individually and collectively, consider they have acted appropriately and in such a way as to promote the long term success of the Company and Group for the benefit of its members as a whole.

The Company and Group have no direct employees as the Company and Group are managed under an Administrative Services Agreement (ASA) and Services Agreement (SA). The board of Directors is satisfied that those people employed under the ASA / SA are appropriately qualified and have the support systems in place to carry out their role. The Directors are engaged with each team under the ASA / SA to ensure the ongoing management of the underlying contracts of the Company and Group and they work collaboratively with the teams to achieve success.

The Group is a holding company for special purpose companies which have a finite lifespan with a defined set of obligations under a PFI Contract. The Group delivers its objectives through effective relationships with its stakeholders including suppliers and customers. This is affected by regular reporting and reviews with suppliers and customers to ensure delivery of the Group's objectives, whilst considering those stakeholders' needs. The Directors of the Company and Group meet regularly to review strategies for effective risk mitigation and service delivery in the context of its impact on all stakeholder interests, including shareholders, suppliers, customers and the wider community.

Due to the nature of the Group's operations, their impact on the community and environment is of paramount importance to the Group's success. Operating safely is the Group's primary objective and is as such integrated in everything the Group undertakes. A safe environment is managed through effective leadership, implementation of robust policies, procedures and instructions, safety management review processes both internally and externally with relevant stakeholders, reporting, audit and monitoring. An independent safety advisor is appointed by each of the companies within the Group, who reports directly to the Board of Directors.

The Group delivers contracts to support essential services to the public sector and takes its responsibility for ensuring that an appropriate environment is managed and maintained extremely seriously, ensuring the highest quality service is delivered from the assets under the Group's management.

Matters covered in the Strategic Report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' report have been omitted as they are included in the Strategic report. These matters relate to financial instrument risk.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006 and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRS in conformity with the requirements of the Companies Act 2006 have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Directors' report *(continued)*

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Group's auditor in connection with preparing its report and to establish that the Group's auditor is aware of that information.

Auditor

The re-appointment of auditors will be considered at the Company's AGM.

By order of the board on 9 August 2023

C Thorn - Director

Independent auditor's report to the members of Merseyside Energy Recovery Holdings Limited

Opinion

We have audited the financial statements of Merseyside Energy Recovery Holdings Ltd (the 'parent company') and its subsidiary (the 'Group') for the year ended 31 March 2023 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, company balance sheet, consolidated statement of changes in equity, company statement of changes in equity, consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies.
The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Merseyside Energy Recovery Holdings Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.
Based on our understanding of the Group and the parent company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: environmental regulation, health and safety regulation, anti-money laundering regulation.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the Group and the parent company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;

Independent auditor's report to the members of Merseyside Energy Recovery Holdings Limited (continued)

- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the Group and the parent company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to valuation of interest rate swaps, carrying value of maintenance provisions, recognition of deferred tax asset, revenue recognition (which we pinpointed to the cut-off and accuracy assertions), and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

J Barnard

Jonathan Barnard (Senior Statutory Auditor)
for and on behalf of Mazars LPP
Chartered Accountants and Statutory Auditor
90 Victoria Street
Bristol
BS1 6DP

9 August 2023

Consolidated Income Statement

for the year ended 31 March 2023

	Note	**Year ended 31 March 2023 £000**	*Year ended 31 March 2022 £000*
Revenue	*3*	**49,365**	*51,658*
Operating expenses	*4*	**(31,192)**	*(37,425)*
Operating profit		**18,173**	*14,233*
Financial income	*7*	**15,029**	*15,471*
Financial expense	*7*	**(22,331)**	*(23,275)*
Net financing expense		**(7,302)**	*(7,804)*
Profit on ordinary activities before tax		**10,871**	*6,429*
Tax charge	*8*	**(2,433)**	*(504)*
Profit for the year		**8,438**	*5,925*

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2023

		Year ended 31 March 2023 £000	*Year ended 31 March 2022 £000*
Profit for the year		**8,438**	*5,925*
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		**30,623**	*21,284*
Deferred tax on other comprehensive income	*14*	**(7,656)**	*(2,165)*
Other comprehensive income for the year, net of deferred tax		**22,967**	*19,119*
Total comprehensive income for the year		**31,405**	*25,044*

All profit and total comprehensive income is attributable to continuing operations.

Consolidated Balance Sheet
at 31 March 2023

	Note	2023 £000	*2022 £000*
Non-current assets			
Intangible assets	*9*	**32,518**	*34,013*
Financial assets	*11*	**150,713**	*164,360*
Net deferred tax asset	*14*	**4,734**	*14,089*
Trade and other receivables	*16*	**4,369**	*4,858*
		192,334	*217,320*
Current assets			
Financial assets	*11*	**13,647**	*14,761*
Trade and other receivables	*16*	**39,197**	*29,548*
Cash and cash equivalents	*17*	**32,027**	*36,215*
		84,871	*80,524*
Total assets		**277,205**	*297,844*
Current liabilities			
Trade and other payables	*19*	**(7,855)**	*(6,100)*
Interest-bearing loans and borrowings	*18*	**(11,673)**	*(11,646)*
		(19,528)	*(17,746)*
Non-current liabilities			
Interest-bearing loans and borrowings	*18*	**(254,343)**	*(280,113)*
Other financial liabilities	*12*	**(698)**	*(31,320)*
Provisions	*13*	**(29,176)**	*(26,610)*
		(284,217)	*(338,043)*
Total liabilities		**(303,745)**	*(355,789)*
Net Liabilities		**(26,540)**	*(57,945)*
Equity			
Share capital	*21*	**50**	*50*
Reserves	*20*	**(523)**	*(23,490)*
Accumulated losses	*20*	**(26,067)**	*(34,505)*
Total Shareholders' deficit		**(26,540)**	*(57,945)*

These financial statements were approved by the board of directors on 9 August 2023 and were signed on its behalf by:

C Thorn

C Thorn – Director

Company registered number: 07983197

Company Balance Sheet
at 31 March 2023

	Note	2023 £000	2022 £000
Non-current assets			
Investments	10	50	50
Financial assets	11	82,336	96,431
		82,386	96,481
Current assets			
Financial assets	11	-	-
Total assets		82,386	96,481
Current liabilities			
Interest-bearing loans and borrowings	18	-	-
Non-current liabilities			
Interest-bearing loans and borrowings	18	(82,336)	(96,431)
Total liabilities		(82,336)	(96,431)
Net Assets		50	50
Equity			
Share capital	21	50	50
Retained earnings	20	-	-
Total Shareholders funds		50	50

These financial statements were approved by the board of directors on 9 August 2023 were signed on its behalf by:

C Thorn – Director

Company registered number: 07983197

Consolidated Statement of Changes in Equity
for the year ended 31 March 2023

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 April 2022	**50**	**(23,490)**	**(34,505)**	**(57,945)**
Total comprehensive income for the year				
Profit for the year	-	-	**8,438**	**8,438**
Other comprehensive gain	-	**22,967**	-	**22,967**
Balance at 31 March 2023	**50**	**(523)**	**(26,067)**	**(26,540)**

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 April 2021	*50*	*(42,609)*	*(40,430)*	*(82,989)*
Total comprehensive income for the year				
Profit for the year	-	-	*5,925*	*5,925*
Other comprehensive gain	-	*19,119*	-	*19,119*
Balance at 31 March 2022	*50*	*(23,490)*	*(34,505)*	*(57,945)*

Company Statement of Changes in Equity
for the year ended 31 March 2023

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 April 2022 & 31 March 2023	50	-	-	50

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
At 1 April 2021 & 31 March 2022	*50*	-	-	*50*

Consolidated Cash Flow Statement

for the year ended 31 March 2023

	Year ended 31 March 2023 £000	*Year ended 31 March 2022 £000*
Cash flows from operating activities		
Profit for the year	**8,435**	*5,924*
Adjustments for:		
Financial income received	**(736)**	*(15)*
Interest on financial asset	**(14,293)**	*(15,456)*
Financial expense	**22,331**	*23,275*
Taxation	**2,435**	*504*
Amortisation of intangible asset	**1,495**	*1,495*
Lifecycle provision movement	**2,566**	*4,327*
	22,233	*20,054*
(Increase) in trade and other receivables	**(9,160)**	*(1,845)*
Increase/(decrease) in trade and other payables	**1,520**	*(4,810)*
Income tax paid	**(970)**	-
	(8,610)	*(6,655)*
Net cash inflow from operating activities	**13,623**	*13,399*
Cash flows from investing activities		
Interest received	**736**	*15*
Repayment of service concession financial asset	**28,565**	*29,183*
Net cash inflow from investing activities	**29,301**	*29,198*
Cash flows from financing activities		
Loans repaid	**(11,647)**	*(11,097)*
Interest paid	**(34,465)**	*(23,026)*
Net cash outflow from financing activities	**(47,112)**	*(34,123)*
Net increase in cash and cash equivalents	**(4,188)**	*8,474*
Cash and cash equivalents at 1 April	**36,215**	*27,741*
Cash and cash equivalents at 31 March	**32,027**	*36,215*
Represented by:		
Cash	**32,027**	*36,215*

Notes (forming part of the financial statements)

1 Accounting policies

Merseyside Energy Recovery Holdings Limited (the "Group") is a company incorporated and domiciled in the UK.

The address of the registered office and principal place of business is stated on page 2, and the nature of the Group operations and principal activities is stated on page 4. The financial statements have been presented in Pounds Sterling and this is the currency of the primary economic environment that the Group operates in.

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards.

The financial statements have been prepared using the accounting policies as set out below, which were used throughout all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes 1.9 and 2.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

1.3 Basis of consolidation

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006. The profit for the year was £Nil.

1.4 Going concern

The Group currently has £266,016,000 of total debt *(2022: £291,758,000)*. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it will be able to operate within the level of its current facilities. Long term loans are in place to finance the construction of the Energy from Waste facility and cash flow is sufficient to meet the Group's operational cash commitments.

Having taken account of all available information and forecasts for the next 12 months from the date of approval of the financial statements, and having performed the appropriate sensitivity analysis; the directors are of the opinion that it is appropriate to prepare the accounts on a going concern basis.

1.5 Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Non-derivative financial instruments, excluding the service concession financial asset

Non-derivative financial instruments comprise trade and other receivables, a service concession financial asset, cash and cash equivalents, loans and borrowings, and trade and other payables.

Notes *(continued)*

1 Accounting policies *(continued)*

1.6 Non-derivative financial instruments, excluding the service concession financial asset (continued)

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For trade receivables the simplified approach is used, and the loss allowance is measured at the estimate of the lifetime expected credit losses. The amount of any loss allowance is recognised in profit or loss.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.7 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

The associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

1.8 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

1.9 Service concession financial asset

In accordance with IFRIC 12 and the various provisions of IFRS, the Group has determined the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. Results of all service concessions which fall within the scope of IFRIC 12 conform to the following policies depending on the rights to consideration under the service concessions:

Notes *(continued)*

1 Accounting policies *(continued)*

1.9 Service concession financial asset (continued)

Service concessions treated as financial assets

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction or upgrade services provided.

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income. The consideration received will be allocated by reference to the relative fair value of the services delivered, when the amounts are separately identifiable.

During the operational stage, cash received in respect of the service concessions is allocated to service and maintenance revenue based on its fair value, with the remainder being allocated between capital repayment and interest income using the effective interest method.

The financial assets are held as loans or receivables in accordance with IFRS 9: 'Financial instruments: Recognition and measurement'. Financial assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method less any impairment losses.

The Group has entered into a contract to provide waste management services on behalf of MRWA. The Group is contractually obliged to design, build and operate a rail linked transfer station at Knowsley and an Energy from Waste plant on behalf of the Partnership, and has the right to use these facilities to provide waste management services. The grantor (MRWA) has agreed to provide a minimum guaranteed tonnage of waste to the EfW facility and will pay a fixed price per tonne for this level of waste, with any further tonnage being subject to a different rate. The Group in return, will remove and treat the waste and is obliged to maintain the facilities under lifecycle clauses within the contract.

The Group has the right to both accept and process third party waste, and to generate electricity revenues at the waste facilities.

There are provisions in the contract for termination (and related compensation) in the event of default or voluntary termination by the operator or grantor. There is also provision in the contract for a five year contract extension. The contract specifies that the waste management facilities are to be returned to MRWA at the end of the contract in an appropriate condition.

1.10 Revenue

Service Concession Revenue is measured by a contractual fixed and variable fee less an element of guaranteed revenue. The operation and maintenance of the rail link transfer station and EfW as described in note 1.9, is considered one performance obligation under IFRS15 therefore the revenue is recognised evenly over the duration of the contract. Differences between the amounts recognised in the income statement and amounts invoiced at the period end are shown in the statement of financial position as a contract asset or contract liability.

Electricity Revenue is recognised at a contractual price per Megawatt recognised as the electricity is produced and exported by the plant.

Construction Revenue is recognised as a proportion of the construction cost to date compared to the total expected construction cost plus profit margin.

1.11 Financing income and expenses

Financing expenses comprises of interest payable using the effective interest method. Financing income comprises of interest on the service concession debtor and interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported within finance income or finance expenses as appropriate.

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.13 Provisions

Provision has been made for the costs of maintaining and replacing assets as required under the terms of contracts in place with the Council. The Group expects for these costs to be incurred over the contract life. The expected costs are discounted at 3.82% *(2022 – 1.78%)*. The discounting cost is included in finance expense.

1.14 Intangible assets

Intangible assets relate to amounts paid or payable as consideration for rights relating to concession arrangements or public service contracts. Such assets are amortized on a straight line basis from the date the related facilities are operational, to reflect the expected pattern of consumption of the expected future economic benefits embodied in the asset. Amortization charge is recognised in operating expenses.

1.15 IFRSs adopted in these financial statements

The adoption of the following mentioned standards, amendments and interpretations has not had a material impact on the Group's financial statements:

Effective from 1 January 2022:

- Annual Improvements Cycle 2018 – 2020.
- IAS 37 Amendment: Onerous Contracts: Cost of Fulfilling a Contract.
- IAS 16 Amendment: Property, Plant and Equipment: Proceeds before Intended Use.
- IFRS 3 Amendment: Reference to the Conceptual Framework.

Effective from 1 January 2023:

- IAS 1 Amendment: Classification of Liabilities as Current or Non-current and Deferral of Effective Date.
- IAS 1 Amendment: Disclosure of Accounting Policies.
- IAS 8 Amendment: Definition of Accounting Estimates.
- IAS 12 Amendment: Deferred Tax related to Assets and Liabilities arising from a Single Transaction.
- IFRS 17 Insurance Contracts and IFRS 17 Amendment: Amendments to IFRS 17.

Notes *(continued)*

2 Judgments in applying accounting policies and key sources of estimation uncertainty

Judgments

Management makes judgments to define the appropriate accounting treatment to apply to certain activities and transactions, when the effective IFRS standards and interpretations do not specifically deal with the related accounting issue. This particularly applies in relation to the recognition of concession arrangements.

- **Revenue and Service concession arrangements** – Consideration from contract with public sector entities for waste management service concessions is treated as either as contract receivables or an intangible asset or a mixture of both based on the right to receive cash from the arrangement. Management have used judgement to determine the fair value of the services provided when splitting the contractual price between the construction of assets, the operating of the facilities and the provision of financing. Further details of these arrangements is found in note 1.9.

- **Taxation** – management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Estimates

Due to uncertainties inherent in the estimation process, the Group regularly revises its estimates in light of currently available information. Final outcomes could differ from those estimates.

- **Cash flow hedges** – estimates are used in the valuation of the fair value of cash flow hedges at the year end (Note 12). The mark-to-market valuation is adjusted for Debt Value Adjustment (DVA) estimated by management to reflect the expected gain from the swap providers' own default. A 0.5% increase to the DVA would result in a £4,000 decrease in liability. A 0.5% decrease to the discount rate would result in a £4,000 increase in liability.

- **Provisions** - Estimates are used in the measurement of provisions, more details of provisions can be found in note 1.13. The provisions are recognised in the financial statements at net present value using a discounted rate estimated by management to reflect the time value of money. A 0.5% increase to the discount rate would result in a £470,000 decrease in provision. A 0.5% decrease to the discount rate would result in a £505,000 increase in provision.

3 Revenue

	Year ended 31 March 2023 £000	*Year ended 31 March 2022 £000*
Service concession revenue	**16,958**	*22,096*
Electricity Revenue	**32,407**	*29,562*
Total revenues	**49,365**	*51,658*

In the case of Service Concession Revenue the customer pays a fixed plus variable amount based on the contractual terms. The performance obligation to operate and maintain the facilities is satisfied over time as the plant is operated and maintained. If the services rendered by the Group exceed the payment, a contract asset is recognised, if the payments exceed the services rendered a contract liability is recognised.

Notes *(continued)*

4 Expenses and auditors' remuneration

Included in the operating profit for the year are the following:

	Year ended 31 March 2023 £000	*Year ended 31 March 2022 £000*
Service concession costs	**14,237**	*20,546*
Other expenses	**16,931**	*16,859*
	31,168	*37,405*
Auditors' remuneration:		
Audit of these financial statements	**24**	*20*
Total expenses	**31,192**	*37,425*

5 Staff numbers and costs

No staff are directly employed by the Group *(2022: none).* Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges.

6 Directors' remuneration

The directors received no emoluments directly from the Group.

7 Finance income and expense

	Year ended 31 March 2023 £000	*Year ended 31 March 2022 £000*
Finance income		
Interest income on financial assets	**14,293**	*15,456*
Bank interest	**736**	*15*
Total finance income	**15,029**	*15,471*
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**(22,331)**	*(23,275)*
Total finance expense	**(22,331)**	*(23,275)*

Notes *(continued)*

8 Taxation

Recognised in the income statement

	Year ended 31 March 2023 £000	*Year ended 31 March 2022 £000*
Current tax charge	729	*322*
Adjustments in respect of prior periods	5	-
	734	*322*
Deferred tax charge		
Origination and reversal of temporary differences – current year	1,705	*182*
Origination and reversal of temporary differences – prior year	(6)	-
Deferred tax charge	1,699	*182*
Total tax charge	2,433	*504*

Reconciliation of effective tax rate

	Year ended 31 March 2023 £000	*Year ended 31 March 2022 £000*
Profit for the year	8,438	*5,925*
Total tax charge	2,433	*504*
Profit excluding taxation	10,871	*6,429*
Tax using the UK corporation tax rate of 19% *(2022: 19%)*	2,065	*1,222*
Expenses not deductible for tax purposes, other than goodwill amortisation & impairments	17	*19*
Adjustments in respect of prior periods	(1)	-
Taxable income	336	*371*
Change in tax rate on deferred tax balances	16	*(1,108)*
Total tax charge	2,433	*504*

The increase to the corporation tax rate to 25% had been substantively enacted at the balance sheet date and will have an effect on future tax charges. The deferred tax balance has been adjusted to reflect this change.

Notes *(continued)*

9 Intangible assets - Group

	Concession Arrangements £000
Cost	
At 1 April 2022 and 31 March 2023	*41,703*
	41,703
Amortisation	
At 1 April 2022	*7,690*
Amortisation charge	**1,495**
At 31 March 2023	**9,185**
Net Book Value at 31 March 2023	**32,518**
Net Book Value at 1 April 2022	*34,013*

Infrastructure rights granted to the Group as the concession operator falling within the scope of IFRIC12 and corresponding to the intangible model are recognised above. These reflect the right to charge third parties for waste processed at the Energy from Waste facility.

100% of interest incurred relating to the construction of the intangible asset has been capitalised. During the year £nil *(2022 - £nil)* of interest was capitalised within intangible assets above. The total capitalised interest included within intangible assets at 31 March 2023 was £4,816,000 *(2022 - £4,816,000).*

10 Investments - Company

	2023 £000	*2022 £000*
Cost and net book value		
Investment in subsidiary undertaking	**50**	*50*
	50	*50*

Shares in subsidiary undertakings represent a holding of 100% of the ordinary share capital of Merseyside Energy Recovery Limited. All the subsidiary undertakings are incorporated in the UK and the registered office is the same as the parent company.

Notes *(continued)*

11 Financial assets – Group and company

	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Current				
Service concession financial asset	**13,186**	*14,272*	-	-
Other financial assets	**461**	*489*	-	-
	13,647	*14,761*	-	-
Non-current				
Service concession financial asset	**146,600**	*159,786*	-	-
Other non-current financial assets	**4,113**	*4,574*	-	-
Loans to subsidiary entity	-	-	**82,336**	*96,431*
	150,713	*164,360*	**82,336**	*96,431*

The loan receivable by the Company accrues interest at 8.5% and has no contractual repayment date. These are deemed by the directors as non-current.

12 Other financial liabilities - Group

	2023 £000	*2022 £000*
Non-current		
Cash flow hedges – interest rate swaps	**698**	*31,320*

13 Provisions

	2023 £000	*2022 £000*
Non-current		
Provision for lifecycle maintenance	**29,176**	*26,610*

Provision has been made for the costs of maintaining and replacing assets as required under the terms of the contract with Merseyside Recycling and Waste Authority. The directors expect that this provision will be utilised over the next 21 years.

Movements in the provision are analysed as follows:

	2023 £000
Provision brought forward	*26,610*
Additions	**7,241**
Utilised during the year	**(4,675)**
Provision carried forward	**29,176**

Notes *(continued)*

14 Deferred tax assets and liabilities - Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2023 £000	Liabilities 2023 £000	Net assets 2023 £000	Assets 2022 £000	Liabilities 2022 £000	Net assets 2022 £000
Financial assets timing differences	-	(21,347)	(21,347)	-	(21,502)	(21,502)
On fair value of cash flow hedges	173	-	173	7,829	-	7,829
Tax losses	18,613	-	18,613	21,376	-	21,376
Other timing differences	7,295	-	7,295	6,386	-	6,386
Net tax assets	26,081	(21,347)	4,734	35,591	(21,502)	14,089

The net deferred tax asset recognised at the end of the year relates to deferred tax assets in respect of financial instruments designated as cash flow hedges, tax losses and provisions less the deferred tax liability arising on timing differences in respect of the financial asset. The deferred tax assets of the Group are considered to be recoverable based on the future taxable profits of the Group. The directors have considered the business plans of the Group in determining that these amounts are recoverable.

Movement in deferred tax during the year

	1 April 2022 £000	Recognised in income £000	Recognised in equity £000	31 March 2023 £000
Financial assets timing differences	(21,502)	155	-	(21,347)
On fair value of cash flow hedges	7,829	-	(7,656)	173
Tax losses	21,376	(2,763)	-	18,613
Other timing differences	6,386	909	-	7,295
	14,089	(1,699)	(7,656)	4,734

Movement in deferred tax during the 31 March 2022

	1 April 2021 £000	Recognised in income £000	Recognised in equity £000	31 March 2022 £000
Financial assets timing differences	(15,968)	(5,534)	-	(21,502)
On fair value of cash flow hedges	9,994	-	(2,165)	7,829
Tax losses	18,175	3,201		21,376
Other timing differences	4,235	2,151	-	6,386
	16,436	(182)	(2,165)	14,089

Notes *(continued)*

15 Contract assets - Group

	2023 £000	*2022 £000*
Contract asset (note 16)	**36,757**	*27,031*
	36,757	*27,031*

16 Trade and other receivables – Group

	2023 £000	*2022 £000*
Non-current		
Other receivables	**4,369**	*4,858*
	4,369	*4,858*
Current		
Trade Receivables	**-**	*-*
Contract asset (note 15)	**36,757**	*27,031*
Other receivables	**2,440**	*2,517*
	39,197	*29,548*

There are no unimpaired trade receivables that are past due as at the reporting date.

No receivables have been written off as uncollectible during the year *(2022: £NIL)* and it has not been necessary to recognise any impairment loss under the expected lifetime loss model.

17 Cash and cash equivalents - Group

	2022 £000	*2021 £000*
Cash and cash equivalents per balance sheet	**32,027**	*36,215*
Cash and cash equivalents per cash flow statements	**32,027**	*36,215*

Cash and cash equivalents include £nil *(2022 - £nil)* held in a separate 'Insurance Proceeds' bank account which is restricted to the purpose of receiving and distributing insurance proceeds.

Notes *(continued)*

18 Interest-bearing loans and borrowings – Group and company

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 22.

	Group 2023 £000	*Group 2022 £000*	Company 2023 £000	*Company 2022 £000*
Current liabilities				
Secured bank loans	11,673	*11,646*	-	-
Non-current liabilities				
Secured bank loans	172,007	*183,682*	-	-
Unsecured loans	82,336	*96,431*	82,336	*96,431*
	254,343	280,113	*82,336*	*96,431*

Terms and debt repayment schedule

	Currency	Nominal interest rate	Facility	Year of maturity	Face value 2023 £000	Carrying amount 2023 £000	*Face value 2022 £000*	*Carrying amount 2022 £000*
Term Loan	GBP	SONIA + 3.28%	£262,208,132	2041	183,679	183,679	*195,327*	*195,327*
Change in Law Loan	GBP	SONIA + 3.28%	£7,723,574	2041	-	-	-	-
Subordinated Debt	GBP	8.5%			82,336	82,336	*96,431*	*96,431*
					266,015	266,015	*291,758*	*291,758*

The Group initially entered into swap arrangements to hedge the Group's exposure to LIBOR fluctuations, this was amended in the year ended 31 March 2022 to reflect the move from LIBOR to SONIA at that time. The fixed interest rate inherent in the swap contract relating to the Bridge loans and the Term loans are 1.45% and 3.81% respectively.

The Term loan and Change in Law loan are due to be repaid in full by 30 November 2041.

The loans are secured by a fixed charge over the assets of the Group.

19 Trade and other payables - Group

	2023 £000	*2022 £000*
Current		
Corporation tax payable	86	*322*
Accruals and other payables	7,769	*5,778*
	7,855	*6,100*

Included within trade and other payables is £nil expected to be paid in more than 12 months *(2022 - £nil).*

20 Reserves

Hedging Reserve
Hedging reserves relate to the use of Hedge Accounting as detailed in accounting policy 1.7.

Notes *(continued)*

Retained earnings
Retained earnings are distributable reserves made up of accumulated profit and loss.

21 Share capital – Group & Company

	2023	2022
	£000	£000
Allotted, called up and fully paid		
Ordinary shares of £1each	50	50
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	50	50
	50	50

The authorised share capital of the Company is 50,000 £1 ordinary shares. These shares carry voting rights but no rights to fixed income from the Company.

22 Financial instruments – Group & Company

22 *(a) Fair values of financial instruments*

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Service concession financial asset

The fair value of service concession financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Derivative financial instruments

The Group has entered into interest rate swaps to hedge against volatility of movements in interest rates. These have been designated as cash flow hedges.

The fair value of the interest rate swap is based on a mark-to-market valuation. This quote is tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. The interest rates used to discount estimated cash flows, where applicable, are based on SONIA at the balance sheet date.

Notes *(continued)*

22 Financial instruments *(continued)*

22 *(a) Fair values of financial instruments (continued)*

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2023 £000	Fair value 2023 £000	*Carrying amount 2022 £000*	*Fair value 2022 £000*
Financial assets				
At amortised cost				
Service concession financial asset	159,786	159,786	*174,058*	*174,058*
Other financial assets	4,574	4,574	*5,063*	*5,063*
Cash and cash equivalents	32,027	32,027	*36,215*	*36,215*
Trade and other receivables	43,566	43,566	*34,406*	*34,406*
Total financial assets	239,953	239,953	*249,742*	*249,742*
Non-financial assets	37,252	37,252	*48,102*	*48,102*
Total Assets	277,205	277,205	*297,844*	*297,844*

	Carrying amount 2023 £000	Fair value 2023 £000	*Carrying amount 2022 £000*	*Fair value 2022 £000*
Financial liabilities				
At amortised cost				
Other interest-bearing loans	266,016	266,016	*291,758*	*291,758*
Trade and other payables	7,855	7,855	*6,100*	*6,100*
At fair value				
Derivative financial instrument liabilities	698	698	*31,320*	*31,320*
Total financial liabilities	274,569	274,569	*329,178*	*329,178*
Non-financial liabilities	29,176	29,176	*26,610*	*26,610*
Total Liabilities	303,745	303,745	*355,788*	*355,788*

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes *(continued)*

22 Financial instruments *(continued)*

22 (a) Fair values of financial instruments (continued)

2023	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial liabilities classified as cash flow hedges	**-**	**698**	**-**	**698**
2022				
Financial liabilities classified as cash flow hedges	-	*31,320*	-	*31,320*

22 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group will receive its revenue from a government body and therefore is not considered to be exposed to significant credit risk. The Group holds bank accounts and enters into interest rate swap agreements with financial institutions. The quality of these is reviewed on a regular basis.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore the maximum exposure to credit risk at the balance sheet date was £227,205,000 being the total of the carrying amount of financial assets and trade and other receivables shown in the table shown in 22 (a). This exposure is all in the UK.

22 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group has adopted a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet obligations as they fall due.

The directors have reviewed the Group's cash flow forecasts. These forecasts demonstrate that the Group expects to meet its liabilities as they fall due.

Repayment of the loans is not required until the waste facilities are fully operational and revenue is receivable under the terms of the Concession Agreement.

Notes *(continued)*

22 Financial instruments *(continued)*

***22 (c) Liquidity risk** (continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2023						*2022*					
	Carrying amount £000	**Contractual cash flows £000**	**1 year or less £000**	**1 to <2years £000**	**2 to <5years £000**	**5years and over £000**	*Carrying amount £000*	*Contractual cash flows £000*	*1 year or less £000*	*1 to <2years £000*	*2 to <5years £000*	*5years and over £000*
Non-derivative financial liabilities												
Secured bank loans	**183,679**	**183,679**	**11,673**	**10,469**	**25,713**	**135,824**	*195,327*	*195,327*	*11,646*	*11,672*	*25,840*	*146,169*
Subordinate Loans	**82,336**	**82,336**	-	-	-	**82,336**	*96,431*	*96,431*	-	-	-	*96,431*
Trade and other payables	**7,855**	**7,855**	**7,855**	-	-	-	*6,100*	*6,100*	*6,100*	-	-	-
Derivative financial liabilities												
Interest rate swaps used for hedging	**698**	**58,648**	**6,001**	**5,609**	**14,776**	**32,262**	*31,320*	*65,019*	*6,371*	*6,001*	*15,792*	*36,855*
	274,568	**332,518**	**25,529**	**16,078**	**40,489**	**250,422**	*329,178*	*362,877*	*24,117*	*17,673*	*41,632*	*279,455*

Notes *(continued)*

22 Financial instruments *(continued)*

22 (d) Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur and are also expected to affect profit or loss:

	2023 Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5years and over	*2022* Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5years and over
Interest rate swaps:												
Liabilities	**698**	**58,648**	**6,001**	**5,609**	**14,776**	**32,262**	*31,320*	*65,019*	*6,371*	*6,001*	*15,792*	*36,855*
	698	**58,648**	**6,001**	**5,609**	**14,776**	**32,262**	*31,320*	*65,019*	*6,371*	*6,001*	*15,792*	*36,855*

The following table details the notional principle amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

	Average contract fixed interest/inflation rate		Notional principle value		Fair value	
	2023	*2022*	**2023**	*2022*	**2023**	*2022*
	%	*%*	**£000**	*£000*	**£000**	*£000*
Interest rate swaps	**3.81**	*3.81*	**183,663**	*195,309*	**(698)**	*(31,320)*

Notes *(continued)*

22 Financial instruments *(continued)*

22 (e) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The Group manages interest rate risk by having swapped its variable rate debt into a fixed rate agreement at the start of the project and manages foreign exchange risk by entering into certain foreign exchange forward contracts.

Interest rate risk

The term and bridging loans are exposed to interest rate risk.

The Group has entered into three identical fixed interest rate swap agreements to avoid volatility in debt service costs on its floating rate term loan. It is considered that these agreements constitute cash flow hedges.

Market risk – Interest rate risk

Profile

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was

	2023 £000	*2022 £000*
Fixed rate instruments		
Financial assets	**159,786**	*174,058*
Financial liabilities	**(82,336)**	*(96,431)*
Variable rate instruments		
Financial assets	-	-
Financial liabilities	**(183,679)**	*(195,327)*
	(106,229)	*(117,700)*

Sensitivity analysis

No sensitivity analysis is presented as the majority of the variable rate interest costs have been fixed by means of interest rate swap contracts.

22 (f) Capital management

The Group manages its cash, bank loans and equity as capital. The Group's principal objective is to ensure that the Group has sufficient capital to fund its construction programme and future maintenance obligations. Capital requirements and timings are reviewed regularly based on the requirement to make payments to subcontractors and lenders; and forecasts and models are used to monitor the management of cash resources. Loans are in place for the duration of the contract with MRWA.

23 Commitments

Capital commitments

The Group has entered into contracts to purchase plant and equipment and construction services under the contract with MRWA. The commitments outstanding at 31 March 2023 amount to £Nil *(2022: £Nil)*

Notes *(continued)*

24 Related parties

During the year ended 31 March 2023, the following transactions took place:

Group:

Party and relationship	**Transactions 2023 £000**	**Outstanding at 31 March 2023 £000**	Transactions *2022* £000	Outstanding at 31 March *2022* £000
SUEZ Recycling and Recovery UK Limited (& group companies) (40% Shareholder in Merseyside Energy Recovery Holdings Limited)				
- Operational and maintenance charges received	**14,237**	**1,928**	*20,546*	*2,951*
- Other recharges received	**244**	**22**	*219*	*21*
Itochu Corporation (parent company of I-Environment Investments Limited; a 20% shareholder in Merseyside Energy Recovery Holdings Limited)				
- Management charges received	**5**	**1**	*5*	*1*
Sembcorp Utilities (UK) Limited (subsidiary company of Sembcorp Utilities Pte Limited; a 40% shareholder in Merseyside Energy Recovery Holdings Limited)				
- Other recharges received	**1,516**	**12**	*1,063*	*16*
- Electricity revenue	**(28,347)**	**(2,623)**	*(29,562)*	*(5,902)*

Transactions with key management personnel

There has been £21,000 paid to Ambialet Limited and £65,000 paid to JDCA Limited both providing consultancy services as commercial advisors to the Group *(2022: £73,000 paid to Ambialet Limited).* At 31 March 2023, the Group owed JDCA Limited £7,000 (*2022: £5,000 owed to Ambialet*).

Company:

The Group and Company was charged interest on loans from the Company's shareholders as follows:

	Interest 2023 £000	**Outstanding at 31 March 2023 £000**	Interest *2022* *£000*	Outstanding at 31 March *2022* *£000*
SUEZ Recycling & Recovery UK Limited	**3,162**	**32,934**	*3,290*	*38,882*
I-Environment Investments Limited	**1,581**	**16,468**	*1,646*	*19,441*
Sembcorp Utilities PTE Limited	**3,162**	**32,934**	*3,290*	*38,882*

The Company received interest on its loan receivable from Merseyside Energy Recovery Limited, a 100% owned subsidiary entity, of £7,905,000 *(2022 - £8,226,000)* during the year ended 31 March 2023. The balance receivable from Merseyside Energy Recovery Limited at 31 March 2023 was £82,336,000 *(2022 - £96,431,000).*

Transactions with key management personnel

There has been no compensation of key management personnel *(2022: £nil).*

Notes *(continued)*

25 Ultimate parent Group and parent Group of larger group

At 31 March 2023, 40% of Merseyside Energy Recovery Holdings Limited's share capital was owned by SUEZ Recycling and Recovery UK Limited, 40% by Sembcorp Utilities PTE Limited and 20% by I-Environment Investments Limited. The management of the Company by the Board of Directors is subject to a Shareholders Agreement, which limits the ability of any one party to control the Company.

Sembcorp Utilities PTE Limited and I-Environment Investments Limited have the power to jointly require a change to the main policies and procedures of the Company and each has a right of veto over any proposed changes. SUEZ Recycling and Recovery UK Limited has no such powers to amend or block changes to the policies and procedures of the Company. The directors therefore regard Sembcorp Utilities PTE Limited and I-Environment Investments Limited to be in joint control of the entity.

In the opinion of the Directors there is no ultimate controlling party.

23 Post balance sheet events

Draft legislation for an Electricity Generators Levy, announced by the government in November 2022, was published by HMRC on 20 December 2022. The levy intends to capture what it sees as excess profits being made in the wholesale electricity market by low carbon generators, which includes Energy from Waste. The levy will be in place from 1 January 2023 to 31 March 2028, applying to receipts in respect of relevant UK electricity generation after the commencement date and sees in-scope generators pay 45% of revenues earned on prices in excess of £75/MWh. The levy provides an allowance for the first £10m per annum of excess generation receipts that will not be subject to the levy. Since the balance sheet date the draft legislation has been substantivity enacted.

For the period from 1 January 2023 to 31 March 2023, the Group's excess electricity generation receipts were below the allowance for the prorated £10m per annum allowance and therefore there is no adjustment needed to the financial statements for the year end 31 March 2023 in respect of the Electricity Generators Levy.